

**State-County Functions Working Group (Transient Accommodations Tax)**

(Established by Act 174, Session Laws of Hawai'i 2014)

State of Hawai'i

<http://auditor.hawaii.gov/>

**Minutes of Meeting**

Date: Wednesday, December 3, 2014

Time: 10:00 a.m.

Place: State Capitol  
415 S. Beretania Street  
Conference Room 414  
Honolulu, Hawai'i

Present: Simeon R. Acoba, Chair, Chief Justice Appointment  
Sananda Baz, County of Maui Appointment  
Ed Case, House Appointment  
Mary Alice Evans, Governor Appointment  
Steven Hunt, County of Kaua'i Appointment  
Deanna Sako, County of Hawai'i Appointment  
Ray Soon, City and County of Honolulu Appointment  
Jesse Souki, Governor Appointment  
Kerry Yoneshige, Governor Appointment

Dan Purcell

Jan K. Yamane, Acting State Auditor, Office of the Auditor  
Jayna Oshiro, Analyst, Office of the Auditor  
Pat Mukai, Secretary, Office of the Auditor

Excused: George Kam, Senate Appointment  
Neal Miyahira, Governor Appointment  
George Sziget, House Appointment  
Ronald Williams, Senate Appointment

I. Call to Order: Chair Acoba called the meeting to order at 10:02 a.m., at which time quorum was established. The agenda for this meeting was filed with the Office of the Lieutenant Governor, as required by Hawai'i Revised Statutes, Section 92-7(b).

II. Public Testimony

None.

III. a. Announcements, introductions, correspondence, and additional information

The Chair announced that a response from the Department of Taxation (DoTAX) was received regarding the Working Group's request for data on the collection and distribution of the TAT from 1987-1994. Acting State Auditor (ASA) Jan Yamane stated that the data requested for 1987-1994 was not available on DoTAX website. The Auditor's Office will be compiling the data; however, it will not be completed in time for inclusion in the interim report. Instead it can become base work for the Working Group to use on a going forward basis.

b. Minutes of previous meeting

Member Evans commented on page 5, paragraph 2, which states, "...part of the Working Group's approach should be to evaluate the division of duties and responsibilities, which is a broad topic." She suggested that it be amended to state, "...part of the Working Group's approach should be to evaluate as opposed to determining the division of duties and responsibilities."

Member Soon commented on page 3, paragraph 1, which states, "...on behalf of the City and County of Honolulu, they would like to submit a minority report..." He suggested that it be amended to state, "...on behalf of the City and County of Honolulu, they would like to reserve the option to submit a minority report..."

It was moved by Member Hunt, seconded by Chair Acoba, and unanimously carried to approve the minutes of the November 5, 2014 meeting, as amended.

IV. Interim Report to the 2015 Legislature

The draft interim report was distributed to the members for their review and posted to the Auditor's website: <http://auditor.hawaii.gov/task-forceworking-group/>. The Working Group provided the following comments:

- 1) Page 11, last bullet point: Member Evans commented on the use of the term "allocated." At the last meeting, she recalled from the discussion with Member Miyahira and Mr. Quinn of the Department of Land and Natural Resources (DLNR) that an appropriation was needed to access the funds.  
  
ASA Yamane stated that the report was amended to reflect deposited instead of allocated. Also, to address the issue that an appropriation was needed to access the funds, DLNR was requested to submit a statement in writing to include as a footnote to the bullet point. However, since DLNR has not submitted a statement, the following footnote was drafted for the Working Group's consideration: "According to DLNR, the \$3 million is not accessible by the department because there is no appropriation."  
  
Member Baz stated that the footnote clarifies the issue.
- 2) Page 6, Exhibit 2 TAT Collection and Rates, FY2004-FY2013: Member Baz asked whether the prior years will be included in the draft report. ASA Yamane reiterated that although the data was received from DoTAX, the Auditor's office will not have sufficient time to prepare and review the data for inclusion in the interim report. However, the information may be used for the final report.
- 3) Page 13, first paragraph, line 4, which states "... State-County Functions Working Group to conduct a study to determine the appropriate..." Member Evans suggested changing the word "determine" to "evaluate." ASA Yamane suggested replacing that part of the sentence with language from Act 174 that includes the responsibilities of the working group, "... State-County Functions Working Group to conduct a study to evaluate the division of duties and responsibilities between the State and counties relating to the provision of public services; and submit a recommendation to the Legislature on the appropriate allocation of the transient accommodations tax revenues between the State and counties that properly reflects the division of duties and responsibilities relating to the provision of public services. The Working Group will submit an interim and final report to the 2015 and 2016 Legislatures, respectively."

The Working Group began discussions on the Working Group's responsibilities.

Member Soon stated the appropriate duties and responsibilities should relate to the visitor industry and not to all duties and responsibilities. Chair Acoba recalled at the last meeting, the consensus was to include all duties and responsibilities. The statute includes the following responsibilities:

- 1) Division of duties and responsibilities relating to the provision of public services and;
- 2) Submitting a recommendation on an appropriate allocation that reflects the division of duties and responsibilities relating to the provision of public services.

There was a suggestion to apply a ratio to the revenues.

Member Hunt stated that if the Working Group is looking at the expenditures for public services, he suggested to look at all revenues for public services including GET (general excise tax), and other income and property taxes.

Member Baz questioned that looking at the State budget from a county's perspective, if half of its budget is for education which is not related to the visitor industry, does half of the TAT go to education because it is part of public services? Member Hunt also questioned whether supporting tuitions at the University of Hawai'i is part of TAT and where is the nexus?

Member Sako stated that 1) and 2) above are independent from each other. She said that the Working Group would need to do 1) to comply with the law; however, 2) might not be based on 1) at all and she does not think education should impact the TAT distribution. For 2) above, she stated that when the appropriate allocation is determined, the Working Group may decide which items are tourist-related or other methodologies.

Chair Acoba stated the Legislature did not tie the TAT to tourism because Act 174 includes that part of the TAT money can be used to cover any shortfall for retirement benefits. Also, when the TAT was first enacted, the committee reports stated that the counties can use the money for any purpose. Act 174 is a broad mandate that gives the Working Group a lot of flexibility.

Member Souki arrived at 10:22 a.m. At this time, Member Souki reviewed the footnote drafted on page 11, last bullet point, of the interim report. Upon review, Member Souki agreed with the language.

Member Case stated that the Working Group needs to target on a nexus which gives the Working Group the flexibility to phrase the recommendation in a nexus perspective. However, the Working Group needs to start broader. He also stated that he does not know whether the Working Group can track all TAT revenues directly related to tourism-related functions.

Chair Acoba suggested using a sliding scale, including population, tourism expenditures, etc.

Mr. Purcell, a member of the public, stated that he would like to comment. He also stated that he is entitled to comment on every item on the agenda per Sunshine Law and said that he does not need to do this at the beginning of the meeting which is most convenient for the Working Group. Further, he said if conversations are not heard and things are not presented, he is legally entitled to comment on every item on the agenda and would like to comment on the draft report.

Chair Acoba acknowledged Mr. Purcell and stated that public comments were set at the beginning of the meeting.

Mr. Purcell stated that the Working Group may have an item on the agenda; however, it is not appropriate because he is legally entitled to comment on every item on the agenda, which, he claims, he did not have any copies of for today. He also stated that the Working Group cannot take action and vote. Further, he stated the whole purpose is to have public participation in this process and this is a very important item for public participation.

Chair Acoba stated the Working Group discussed the interim report at the last meeting and this is a follow-up to that discussion. Mr. Purcell stated he wanted to comment.

Mr. Purcell also stated it does not need to be an agenda item. With Sunshine Law, members of the public can comment on every single agenda item regardless if it is an action item or not. He stated to Chair Acoba that "...I'm entitled to comment on every single agenda item on this agenda. And if you don't allow me to comment, all of these actions today could be invalidated. And, I will file a complaint with the Office of Information Practices."

ASA Yamane stated the Auditor's office contacted the Office of Information Practices (OIP) in anticipation of these meetings. OIP's guidance was that we are not obligated to provide copies ahead of the meeting but nonetheless, we have posted the handouts to our website along with the agenda at the time they were made available to the members. The minutes, as well as the draft interim report, were posted to our website. In addition, she stated that the Auditor's Office also posted the agenda to the State Online Calendar. As a Legislative Branch agency, the Auditor's office is not required to post agenda to the State Online Calendar as required by Executive Memorandum 11-11. She also stated that there is an agenda item for public participation.

Mr. Purcell continued to state "I am entitled to comment on every item on the agenda." Chair Acoba thanked Mr. Purcell for his comments but ruled that the opportunity for public testimony had already been afforded. However, Mr. Purcell was invited to submit written testimony and/or present testimony at the next meeting. Mr. Purcell also said, "It would help if the members speak up because I can't hear you and there's an audio recording which I may request after this meeting, people can't hear you either." Chair Acoba informed Mr. Purcell that he is invited to sit in the first row of the audience section to better observe the proceedings. Mr. Purcell said, "It's despicable that you're not taking public testimony."

After discussion, it was moved by Member Soon, seconded by Member Hunt, and unanimously carried to approve the interim report.

ASA Yamane asked the Working Group to consider delegating to the Chair the responsibility to work with the Office of the Auditor on final amendments that include grammatical or technical changes and no substantive amendments.

It was moved by Member Evans, seconded by Member Yoneshige, and unanimously carried to delegate the authority to the Chair to work with the Office of the Auditor to finalize the report and make technical, nonsubstantive amendments, if needed.

ASA Yamane stated that from a logistical standpoint, the act's deadline for submission of the interim report is 20 days prior to the legislative session. The interim report will be finalized as quickly as possible.

- V. Methodology/Approaches/Consultant – Discussion  
(possible items or issues to include in specifications for consultant request for proposals (RFP); standards, guidelines, formulas; definition of public service; and organization of final report.)

The Working Group wrote ideas on a flip chart regarding responsibilities outlined in Act 174 (SLH 2014):

- 1) Division of duties and responsibilities between the State and counties; and
- 2) The appropriate allocation of the TAT to State and counties that properly reflects the duties and responsibilities relating to public service.

Attachment 1 is a transcription of the ideas written on the flip chart.

1) Division of duties and responsibilities between the State and counties

Chair Acoba stated that the first question calls for the evaluation of division of duties and responsibilities between the State and counties relating to public services. What kinds of items relating to that issue does the Working Group want the consultant to consider? The second question is the allocation of TAT revenues between the State and counties that reflect the division of duties and responsibilities relating to providing public services.

There are two models that have been raised. 1) Apply some formula to the TAT revenues. The statute calls for an appropriate allocation of the revenues between the state and counties which properly reflects the division of duties and responsibilities relating to the provision of public services. This ties the allocation to the division of duties and responsibilities. 2) Tie the TAT to tourism.

Member Soon stated a third approach is to bring in all income and revenues of the State and counties and to make a recommendation based on not just expenditures but income as well. Chair Acoba agreed this can be reflected in one of the two parts of the model or both models under the second issue. Member Soon stated he does not want the Working Group to direct the consultant to only consider the expenditure side of the equation.

Chair Acoba asked the Working Group to look at the first issue, which is the division of duties and responsibilities between the State and counties. What does the Working Group want and what kinds of data does it want the consultant to obtain?

Member Souki wanted to discuss the terms "division of duties." He stated if the Working Group looks at the State Constitution and the division of what the State and counties do is one question. However, what the Working Group is interested in is what are we actually doing now. We are not talking about re-evaluating roles and jurisdiction.

Member Hunt suggested breaking the topic down into generic categories such as public safety, parks and recreation, cultural activities, public welfare, and transportation so that the Working Group is focusing on areas that we think are public services.

Definition of public services

Chair Acoba stated that a definition of *public services* is needed because how it is defined would be the focus of the types of services for the State and counties. Member Souki suggested that the Working Group discuss what the State and counties actually do now and what is the impact from tourism. Chair Acoba stated what the State Constitution and county charters state defines what the State and counties do; however if the Working Group is thinking of a formula for the future, these have to be taken into consideration.

Establish status quo

Member Case questioned whether we should accept the status quo and proceed from where the status quo is right now. He suggested not to re-adjust the TAT but to redo the status quo. The Working Group is charged with deciding where the public services are allocated right now and figuring out where the TAT fits in. The question about each of the public services and what is the nexus to tourism, assuming that we want to link the TAT to tourism. Member Souki agreed to start with the status quo.

Member Soon stated his understanding was to 1) identify what is the distribution of roles, responsibilities, and duties; and 2) make a recommendation that takes into account the status quo. Member Case agreed that the Working Group is charged with commenting on whether the current division of duties and responsibilities does not work for the allocation of TAT. Member Hunt also agreed that the Working Group should look at providing a formula and allocation. He has no problem starting broad but at some point there has to be a nexus to tourism.

Member Case agreed but stated that there is no reason why status quo cannot be expressed as 1) but under 2), present alternatives such as if the Working Group is staying with the status quo, that is where the TAT should go. He stated another way to look at it is if you shift some of the responsibilities as we think it should be shifted then this is what happens with the TAT. Member Hunt asked if there could be greater efficiencies, shifting one or the other as being responsible but giving them the appropriate moneys to manage.

Member Evans stated that in the 1990s, the Legislature directed the Office of State Planning to conduct a study of the appropriate division of duties and responsibilities for parks and transportation. The study found that there was no overlap or duplication of services; however there was a gap in resources to meet the needs both at State and county levels for the two types of public services. As a result, the Legislature shifted some parks from county to state and state to county.

Member Hunt stated whether there is a defined role of a consultant. He recalled from the last meeting, the Working Group has the expertise and resources and the consultant would be used more for report gathering and presentations and not necessarily for research.

ASA Yamane stated that the group should be looking for ideas or approaches for the specifications for consultant services. The budget request is for \$150,000. She stated that the Working Group does not yet know what we want this person or company to do. This exercise is an attempt to develop some language to share and talk about at the next meeting.

2) The appropriate allocation of the TAT to State and counties that properly reflects the duties and responsibilities relating to public service

The Working Group discussed the following related to 2) above:

- a. Develop formula/calculations to TAT revenues (establish a basis); and
- b. Allocate TAT revenues based on services for tourism.

Member Evans stated that Act 174 provided the working group with two models: 1) the capped model with a flat amount for the counties; and 2) the ability to look at a different model. The Working Group has the option of looking at a flexible allocation.

Chair Acoba stated that we all agree that the Working Group has leeway on 2). However, regarding 1), the language would be to apply a formula or ratio to the TAT revenues and that ratio would reflect the division of duties and responsibilities between the state and counties.

Member Souki commented that the State and counties may be competing for resources from the Legislature, however, they are not competing for the division of labor. The city manages some parks and roads and the state manages some parks and roads. The question is not allocating based on some kind of division of labor but going back to the concept of what to do and whether there is some nexus to the TAT. What is the ratio? He stated that one assumption that helps get through this exercise is assuming what the ratio is going to be. It would help if the Working Group is looking for some kind of allocation based on what we do and the rationale of allocating the available TAT.

Chair Acoba clarified, under 2(b) to allocate the revenues based on public services related to tourism.

Member Case stated this is basically the RFP for the consultant. He suggested that the consultant start with the status quo which is 1); and then starting with status quo where is the TAT going now and match the TAT back to 1); which is the overall division of duties and responsibilities and need some factual information for the consultant to do that.

Member Soon stated that for the counties the TAT goes into their general fund and is included with other income. However, the counties can identify all the functions the counties provide that are visitor-related and illustrate how much less we get from the TAT than we spend right now.

Member Hunt stated that there should be a strong nexus between what you are spending related to the visitors and the revenue that is coming in.

Member Souki stated that the DLNR receives TAT but they have to justify to the Hawai'i Tourism Authority (HTA) how it relates to tourism.

Member Yoneshige stated that when looking at 2(a) and 2(b) above, the criteria for the RFP could include: 1) apply a formula or calculation to TAT revenues and the basis behind the formula or calculation (what is it based on); and 2) allocate TAT revenues so it is specific. Member Soon stated this is a good role for a consultant to develop a formula and to identify all the assumptions that went into the formula. Chair Acoba clarified that the Working Group's role is to be part of that process because whatever the formula is will require judgment and not just gathering data.

Member Baz suggested changing the word from "apply" to "develop" and pluralize formula calculations so that they are multiples—multiple reasoning factors.

Member Souki stated that the consultant can provide arrival numbers but does it truly measure the impact. He said that if everyone goes to one tourist destination and they are not really using your roads and other resources, then how do you measure the impact and use?

Member Soon stated that at the first meeting, Member Williams had an idea that money should be spent on projects on an annual basis decided for tourism. However, he wondered if there is a totally different approach where you arrive at the current distribution. He said that you are not going to take the excess that right now is deposited

into the State general fund. Further, on an annual basis look at what the annual priorities are to tourism and our job being just to identify the criteria that the Legislature should take into account—the allocation. He suggested leaving the original distribution alone and leave it to the Legislature because that money will fluctuate up and down and that is a totally different approach.

#### Data

The Working Group discussed various types of data it may need such as the following:

a) Visitor data

Chair Acoba stated a determining factor might be visitor arrivals. ASA Yamane said that some of the data the Auditor's office can compile.

b) Population (defacto)

Member Hunt suggested de-facto population. Chair Acoba suggested population.

c) Ratio lodging v non-lodging expenditures

Member Evans suggested ratio of lodging to other expenditures by tourism because it affects the multiplier but it stays in the state and the degree in which visitors use services outside of the hotel and lodging. Member Evans stated to obtain the lodging expenditures ratio HTA has a research section and DBEDT also has the research and economic analysis division.

d) Revenue per available room

Member Baz suggested revenue per available room.

Member Yoneshige stated that it should include all revenue per room and all the room revenues. He also stated that the bed and breakfasts number about 30,000. He asked how many rooms are there in the State because 30,000 as a percentage of available hotel rooms is a significant number. Member Case said it is a significant number. Member Hunt said hotel rooms are declining and non-hotel rooms are growing, so it is definitely an issue.

Member Yoneshige stated that the Working Group can obtain all the data but one of the key factors is going to be how is the data weighted into an allocation formula if that, in fact, is used. The weighting of the data as it relates to the formula or calculation will be the next step which will be important.

Member Hunt stated each county has a Memorandum of Understanding (MOU) with the State Department of Taxation and we can exchange data and collect data on vacation rentals which could potentially be additional revenue coming in.

ASA Yamane asked if the Working Group is looking at total room or accommodation capacity? Member Yoneshige stated that he brought it up because overall how the visitor data, population, number of arrivals enters into the ultimate formula; weighting of that data is going to become an important part. He is asking the question relative to the unreported and unpaid rooms, how accurate is that number, because if it is not going to be accurate then the level of weight into the allocation formula needs to be looked at and adjusted and it may not be important because it's not as valid. Member Evans said it will



vary by county because some counties have legalized the transient vacation rentals, bed and breakfasts, and others like O'ahu has limited them to those who have permits before 1986.

Member Hunt stated that time shares pay property taxes and transient occupancy tax.

e) Number of non-traditional accommodations

Member Souki suggested data on the number of non-traditional accommodations.

Member Hunt explained that portions of the TAT are identified specifically for direct contributions to tourist-related support and economic development on a dollar for dollar. However, there are other factors we do on allocation, de-facto, such as 25% of the island's occupants are visitors and these are general public safety, police, and fire types of services, but we have taken out the administrative activities trying to tie it more public service and everyone benefits from it. Where we can direct dollar for dollar, we allocate based on the percentage of visitors.

Member Sako suggested that if the Working Group focuses on data gathering she was not sure about consolidating or compiling the data because each county has their own spreadsheet so it would be in a more comparative format.

ASA Yamane stated that the Working Group previously expressed that the consultant would gather information and the conclusions and recommendations will be drawn by the Working Group. However, the Working Group would still want the compilation of all the counties' information and analysis of the data gathered or the Working Group will get a load of raw data. The Auditor's Office does not have the capacity to analyze all the data received. She suggested that the role of the consultant might be to stagger the deliverables having a schedule at the beginning of each month with certain pieces of information coming out at those meetings. Then they can be discussed and worked on, instead of receiving a huge load of information at the end.

Member Soon stated a lot of time will be spent gathering information and that is money the Working Group could be spending on a variety of things. He asked how does any of this information help us determine the allocation of TAT. He further stated that he is struggling to know why we would send the consultant to gather all this information.

Chair Acoba stated the pieces of data can be used to make adjustments. We have this data readily at hand and it is easier to make those adjustments, if needed. He stated that population, as mentioned in the legislative reports, is correlated to visitor arrivals. The split among the counties has some background in terms of specific data. The Legislature would be interested in making sure that we went through the process and we considered all factors; factors they, themselves, identify in their own legislative reports such as population. Member Soon stated the only reason we would use population or visitor counts is to alter the allocation between the counties. For the counties, we do not want to touch the allocation and are not interested in re-evaluating because that will create a war that would distract us dramatically. We chose to accept the allocation that's been in the books forever and we do not look at population. Instead, we focus on the functions of the city and counties, and the State, that have a nexus to visitor industry.

Member Hunt stated that we need to determine within our own budgets what we are allocating to the visitor industry.

Member Baz referring back to the revenue side, stated there is also the GET (General Excise Tax) revenue that is based on tourism that comes in from tourists that goes into the state general fund. For the tourist-related expenditures, there is this extra revenue that the counties do not

have access to. Member Case said that it differs from county to county. Some counties derive more revenues than other counties from tourist-related activities.

f) All incomes of State and counties (in gross)

Member Soon stated that all gross incomes of the State and counties should be obtained because we are going to be looking at all the duties and responsibilities. Also, if the consultant is collecting data, we should direct the consultant to look at every one of the categories of expenditures at the state and counties and tell us what is the appropriate nexus to the visitor industry. Member Case agreed but asked what the guidelines are for the consultant and what is the nexus?

Member Case stated that the Working Group needs to provide the consultant some guidance. Member Soon stated we need the approach to identify the data and feels that we have not determined the approach to 2) above. He further stated that the Working Group needs to determine the approach before we identify the data, otherwise the data will drive us. Chair Acoba stated the data will give us a foundation and understands what Member Soon is saying, however, the Working Group needs to decide on the RFP and can always add to the consultant's work. Member Souki stated that the Working Group could ask the consultant for some idea on how we would appropriate or allocate and if they would give us some ideas on some models based on the data. Chair Acoba suggested coming up with ideas and this is why it is a RFP, we don't have to set everything down.

ASA Yamane stated that there are ways to have open-ended language where you would say, "including but not limited to." She said from a planning standpoint, we may need to look to Member Evans or Member Souki for some guidance in terms of Office of State Planning-types of contracts or specifications that ask for those kinds of models.

Member Soon suggested to request for information and solicit models. To say, this is our assignment and our assignment is to allocate the TAT, give us your ideas on what information we should be looking for in order to meet that determination and then based on your response to our finding, put out and RFP.

ASA Yamane explained that the budget request is submitted to the Legislature in January 2015. Once approved it is up to the Working Group how to use the moneys. If the Working Group is able to contract in late March or early April, it is best to stagger the work over time so the group receives information as the contractor does its work. The finished product should be received in early fall (2015) to give the Working Group ample time to conclude and make recommendations.

Chair Acoba asked the Working Group about setting an arbitrary deadline of June. Member Baz stated if the Working Group wants data or models by June, it has to decide what data we need to collect. Member Evans stated that getting models would be more helpful than obtaining data to be able to have choices. She also stated that she and Member Souki can think of sources of data in the State that can be requested without hiring a consultant. The counties have already done some work in breaking out their own budgets. Member Case stated that he can obtain the visitor industry data easily. Chair Acoba stated that the Working Group can do both, obtain data and develop models, at the same time.

Mr. Purcell interrupted the discussion and wanted to verify for the record that he is not going to be allowed to comment again on this portion of the meeting and he will not be allowed to comment on anything now or anything else for the rest of this meeting.

Chair Acoba went on to ask if there are any problems with setting June as the deadline for gathering all the information. Chair Acoba stated that 1) is an issue to answer except gathering

the data and saying, this is how it breaks down in numbers; expenditures to pay off loans—let's not excise that; if people want to, we can excise education. These are the kinds of discussions we would have on 1).

Chair Acoba stated for 2(a) above, it is an overlay. When the division of duties and responsibilities are obtained, you need to apply the ratio. If you look at 1), if you allocate the duties and responsibilities, assuming you have the ratio, then you apply that to what the TAT revenues are. Setting aside the issue that the Legislature can do whatever it wants with the TAT revenues and then use the remainder to do the split like it's done in Act 174, it sets aside money to cover the shortfall for retirement benefits; it has nothing to do with tourism. You can make the argument that allocation is straight-forward, simple, and logical because if you look at tourism as a whole, then both residents and tourists benefit from the services. It is one group of people who benefit from the services and it is very difficult to administratively and otherwise separate out the tourists from the residents and the specific service that goes to different types of tourists versus how you allocate that to residents. If you look at it as a whole, services benefit everyone. It is too administratively or otherwise difficult in terms of trying to allocate between residents and tourists so that if you follow a formula and you consider tourism as a whole, then in effect you have treated tourism as a whole as just part of the ongoing function of government. Therefore, it makes sense that the tourists and residents benefit. It is too difficult to try and determine who goes where but we know where the services are and so that would be the basis.

Mr. Purcell again interrupted the discussion. Mr. Purcell stated that he wanted to make sure that the Chair heard him and wanted to be acknowledged. He stated that he is a member of the public and is making sure that he is being denied the opportunity to testify. He sees the staff has a recording and now has his own recording and wanted to be sure he is being denied the opportunity to testify on this agenda item being covered now and to comment on any agenda item other than what was provided at the beginning of the meeting where it states "Public Testimony."

Chair Acoba continued on with the meeting; however, Mr. Purcell interrupted again and said to the Chair you are going to continue to ignore me and not even acknowledge that you hear me. Chair Acoba said he heard him.

Chair Acoba continued on, stating that the group could look at the TAT as just a revenue fund and basically divide it up on services. Just looking at it as a whole, that way we settle the issue. The second is (b), where all the data is needed to tie it to tourism and allocate it on that basis; these are factors that probably will be helpful.

Member Case stated from a logistical perspective, is it possible to start now. Is it possible to proceed with 1), which is determining the allocation on services between state and counties? ASA Yamane stated that for the Auditor's Office, it is a resource issue. Member Case indicated that he understands, but does the Auditor's Office have the ability to proceed under a certain contract amount? ASA Yamane said the Auditor's Office does not have excess in their budget to do that.

Member Soon said 1) can be done at the county level; we can articulate our duties and responsibilities. Member Souki said at the state level, there are DLNR aspects to consider.

Member Baz stated that Maui did a full-cost allocation plan and it has the details of everything they do and every program and activity. Member Souki asked if the Budget and Finance (B&F) has information as part of their budgeting system that includes full-cost analysis.

Chair Acoba asked if June is the deadline that can be established to obtain all that we need. ASA Yamane stated we need clarification in terms of the data, consultant, or models, because it looks

like there are a couple of moving pieces now. Chair Acoba stated in terms of data he was thinking about how much time the Working Group would need to come up with a decision.

Member Souki stated to help the State we need to figure out how to collect this information. When the consultant comes in, he/she knows where to find the resources; we can identify where these resources are but not necessarily pull it all together. This would help us meet the June deadline. ASA Yamane said DBEDT has the State of Hawai'i Data Books, and Member Evans agreed they have a lot.

Chair Acoba asked to go back to 1) and asked if the Working Group would be able to pull together duties and responsibilities. ASA Yamane said we can start, however, it depends on what kind of resources we will need.

Member Souki stated that the data is presented in many different ways. Chair Acoba asked some of the members who are CPAs if the budget and expenditures would be a good source for duties and responsibilities. Member Yoneshige stated that the budget is a start, but the objectives and mission/purpose behind that program is a part that is not clear. That is the part where, when you talk about the definition of public services, it has to go deeper than just the budget. The program IDs are not detailed enough for what the program actually provides relative to service.

Member Souki stated the budget is a starting point for the State. State agencies all come up with actual budget requests for what they need but they seldom get all that they need. However, the budget that is passed by the Legislature does not provide a full picture.

Member Sako stated that for 1), in terms of what we are each doing, Hawai'i County's budget is a little more detailed. They do not do full-cost allocations like Maui, but can definitely see what goes to police, fire, and parks and recreation. Member Baz stated that they do not want to do 1) based on dollar amounts, rather on explanation of functions.

Member Souki stated an inquiry to B&F would be very beneficial because when they analyze the budget, they need to understand what program objectives and services are to be able to evaluate the funding requests. Member Yoneshige stated that is Member Miyahira's area. Member Baz stated they have an 843-page document that is their budget, which is a narrative budget document, that has the structure and program narratives. However, he does not know how useful it will be. Chair Acoba asked if it's possible to do it that way.

ASA Yamane wanted to assess what kind of resources the Auditor's Office needs for data gathering. All of the information will come to the Auditor's Office, it can function as the receptacle.

Member Souki suggested at the next meeting, the Working Group should obtain the B&F information and be prepared to explain what it means. Chair Acoba asked if the counties can also do that. Member Sako stated the main categories they all use for the CAFR, which are usually general government, public safety, highways and transportation, health, education, welfare, sanitation, parks and recreation, and cultural activities. However, within each category, more detail is included. For example, public safety includes police, fire, prosecuting attorney, and civil defense. It depends on what level of detail the Working Group wants. Member Sako suggested having general categories and to list the departments under it, in terms of comparing it to the State. The county has police and the state has sheriffs. The State has the Judiciary, education, and State hospitals. Member Sako said she can prepare a chart listing the different functions on one side and columns for counties and State at the top, etc.

ASA Yamane stated that the Legislative Reference Bureau has a Guide to Government in Hawai'i that lists all the departments of the State and counties and their main functions. This resource can be used as a high level resource on duties and responsibilities.

VI. Policy Issue

a. Membership--substitutions/representatives

Chair stated that this agenda item arose from the November 5, 2014, meeting when Member Souki, who was unable to attend, had asked Mr. Dan Quinn from DLNR to attend the meeting as a resource person.

Chair suggested that the working group adopt a policy that membership substitutions/representatives are allowed but will not be counted toward quorum and will not be allowed to vote. It was moved by Member Hunt, seconded by Member Baz, and unanimously carried to adopt the above policy.

Mr. Purcell asked, "that's it, no public comment?" He also said how is he supposed to know that this is going to happen, that you're going to discuss membership. Mr. Purcell continued that he sees it on the agenda, but what he's just describing, the role is going to be whoever just shows up, they just get to be a part of it. Member Souki stated he sent a notice to the Auditor's Office to say someone will be coming in his place. Mr. Purcell said he's like a member of the public, they wouldn't have to testify at the beginning, they get to sit there and "yack it off" the whole time.

VII. Adjournment: With no further business to discuss, Chair Acoba adjourned the meeting at 12:04 p.m.

Reviewed and approved by:

Jan K. Yamane  
Acting State Auditor

[ ] Approved as circulated.

TATWG/20141203

## Attachment 1

1. Division of duties and responsibilities between the State and counties.
  - a. Definition of "public services"
  - b. What services provided by:
    - (i) State
    - (ii) counties
  - c. Constitutional v. actual charters
  - d. Establish status quo
2. The appropriate allocation of the TAT to State/counties that properly reflects the duties and responsibilities relating to public services.
  - a. Develop formula/calculations to TAT revenues (establish a basis)
  - b. Allocate TAT revenues based on services for tourism

### Data:

- Visitor data
- Population (defacto)
- Ratio lodging v. non-lodging expenditures
- Revenue per available room
- Number of non-traditional accommodations
- All incomes of State and counties (in gross)
- Review each category of expenditure on tourism